

January 2002

**MODIFICATION REPORT**  
**MODIFICATION PROPOSAL P45**  
**Introduction of Price Adjusters for**  
**Settlement Days 5 April 2001 to 24**  
**September 2001**

Prepared by ELEXON on behalf of the Balancing and  
Settlement Code Panel

<b>Document Reference</b>	007MMU
<b>Version no.</b>	0.2
<b>Issue</b>	Draft
<b>Date of Issue</b>	28 January 2002
<b>Reason for Issue</b>	Consultation
<b>Author</b>	ELEXON

## I DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Signature	Change Reference
0.1	21/01/02	Trading Development		Initial Draft

Version	Date	Reviewer	Signature	Responsibility
0.1	21/01/02	Trading Strategy		Review
0.2	28/01/02	Parties		Industry Consultation

### b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
Core Industry Document Owners	Various

### c Intellectual Property Rights and Copyright

This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in Great Britain under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

## **II CONTENTS TABLE**

<b>I</b>	<b>Document Control.....</b>	<b>2</b>
a	Authorities.....	2
b	Distribution.....	2
c	Intellectual Property Rights and Copyright.....	2
<b>II</b>	<b>Contents Table .....</b>	<b>3</b>
<b>1</b>	<b>Summary and Recommendations .....</b>	<b>4</b>
1.1	Recommendation.....	4
1.2	Background.....	4
1.3	Rationale for Recommendations.....	4
<b>2</b>	<b>Introduction.....</b>	<b>5</b>
<b>3</b>	<b>History of Proposed Modification.....</b>	<b>5</b>
<b>4</b>	<b>Description of Proposed Modification.....</b>	<b>6</b>
<b>5</b>	<b>Rationale for Panel Recommendations .....</b>	<b>6</b>
<b>6</b>	<b>Legal Text to Give Effect to the Proposed Modification.....</b>	<b>7</b>
<b>7</b>	<b>Assessment .....</b>	<b>8</b>
<b>8</b>	<b>Summary of Representations.....</b>	<b>9</b>
	<b>Annex 1 – Representations .....</b>	<b>10</b>

## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal, and the resultant findings of this report, the Panel recommends to the Authority that:

**Modification Proposal P45 should be approved and should be implemented on 27 March 2002 and effective for Settlement Days 5 April 2001 to 24 September 2001.**

### 1.2 Background

Modification Proposal P03: "Correction of Price Spikes Generated by De-Minimus NGC Purchases" was raised by Electricity Direct. Modification Proposal P03 proposed changes to the Balancing and Settlement Code (BSC) that would cap the maximum contribution that the option fees were permitted to make to System Buy Price (SBP) at 25%. Ofgem issued a determination that no modification to the BSC was required, on the basis that the issue would be addressed by amending NGC's BSAD Methodology.

The Authority directed NGC to amend the BSAD Methodology to include price adjusters for System Sell Price (SSP) and SBP, the Buy Price Price Adjuster (BPA) and the Sell Price Price Adjuster (SPA). In addition, a mechanism was included to recalculate the Buy Price Cost Adjustment (BCA) and Sell Price Cost Adjustment (SCA) to include the effect of the additional data items. This was implemented via Workaround W024.

On 20 April 2001, NGC raised Modification Proposal P08 to provide an enduring solution that proposed to include the Price Adjusters, BPA and SPA within the BSC and the BSC Systems. Modification Proposal P08 was intended to have an Implementation Date of 5 April 2001. However, the Authority subsequently agreed that Modification Proposal P08 should be implemented in the BSC with effect from Settlement Day 25 September 2001.

This means that Workaround W024 continues to apply retrospectively to reconciliation runs for Settlement Days 5 April 2001 to 24 September 2001. Modification Proposal P45 was raised as a retrospective Proposed Modification which proposes replacing the Workaround by the BSC changes implemented for Modification Proposal P08 for these Settlement Days. The Change is also necessary because Section U2.1.3 means that settlement is run on a Settlement Day (not a calendar day) basis unless the particular Code Modification says otherwise. Both Workaround W024 and Modification Proposal P8 attempt to achieve the same imbalance prices.

### 1.3 Rationale for Recommendations

Implementation of the Modification Proposal would remove the need for Workaround W024 and would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations carried out under Workaround W024 for Settlement Days 5 April 2001 to 24 September 2001. Implementation of the Modification Proposal would also improve the transparency of calculating SSP and SBP for Settlement Days 5 April 2001 to 24 September 2001, move the process into the BSC Systems for these Settlement Days and ensure that these Settlement Days are settled retrospectively on system prices that include the BPA and SPA.

The Panel agreed that, in the light of the considerations above, the Modification Proposal would better facilitate achievement of the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), as it would be useful in "promoting efficiency in the implementation and administration of the balancing and settlement arrangements".

The Panel noted that the enduring solution for Modification Proposal P08 would be implemented in the BSC Systems with effect from 27 March 2002. It was BSCCo's view that it would be most appropriate and cost effective for Modification Proposal P45 to be implemented at the same time as the changes for Modification Proposal P8 on 27 March 2002. BSCCo recognised that it was not essential for Modification Proposal P45 to be implemented by 27 March 2002. However, it was essential that Modification Proposal P45 was implemented before the Final Reconciliation Run for Settlement Day 5 April 2001 which would be carried out in late May 2002. In addition, should the Modification Proposal not be agreed by the Authority, time would be needed to put in place the necessary changes to allow the Final reconciliation Run on Workaround Wo24. In view of these concerns the Panel agreed that Modification Proposal P45 should be implemented on 27 March 2002.

The Panel noted that the Modification was retrospective but it was satisfied that this had been made clear to Parties during the Assessment Procedure and in the consultation and impact assessment carried out by the Modification Group. The Panel also felt that the retrospective nature of the Modification Proposal fell within the guidelines outlined in the Authority's decision document for Modification Proposal P19.

## **2 INTRODUCTION**

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the BSC. The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## **3 HISTORY OF PROPOSED MODIFICATION**

Modification Proposal P45 was submitted by the Panel on 18 October 2001. The Panel meeting on 31 October 2001 submitted the Modification Proposal to the Assessment Procedure for consideration by the Pricing Issues Modification Group. The Modification Group held meetings on 6 November and 6 December 2001 to consider the Modification Proposal and prepared an Assessment Report that recommended that the Modification Proposal be approved. The Modification Group noted the retrospective nature of the Modification Proposal and this was made clear by the Modification Group during the consultation carried as part of the assessment Procedure. The Panel meeting on 17 January 2002 considered the Assessment Report and agreed that a draft Modification Report be prepared for consultation containing a recommendation to the Authority that the Modification Proposal should be approved and should be implemented on 27 March 2002 and effective for Settlement Days 5 April 2001 to 24 September 2001.

## 4 DESCRIPTION OF PROPOSED MODIFICATION

The Modification Proposal seeks to implement retrospectively the Price Adjusters for SSP and SBP into the BSC Systems and to replace Workaround W024 for Settlement Days 5 April 2001 to 24 September 2001 inclusive.

The setting of SSP and SBP was originally described in the BSC and calculated using the audited central systems. Modification Proposal P3 proposed the removal of price spikes caused by the treatment of option fees associated with Reserve contracts that the Transmission Company enters into. The Authority decided that Modification Proposal P3 should not be implemented. Instead the Authority directed the Transmission Company to amend the BSAD Methodology Statement to include a price adjuster for SSP and SBP and to include a methodology to recalculate BCA and SCA to include the effect of the additional data items. This was implemented quickly as an interim solution via Workaround W024 that is described in the BSAD Methodology Statement of 10 April 2001.

Modification Proposal P8 proposed that imbalance prices should be calculated within BSC Systems and was intended to replace Workaround W024. Modification Proposal P8 was originally intended to be implemented for Settlement Day 5 April 2001 onwards. However, the Implementation Date was revised during the Report Phase (following consultation) to 25 September 2001 so as to avoid objection about the retrospective application of the Modification Proposal.

Modification Proposal P45 seeks to replace Workaround W024 by the BSC changes implemented for Modification Proposal P8 for Settlement Days 5 April to 24 September 2001. This will ensure that Settlement Days 5 April 2001 and 24 September 2001 are settled retrospectively on system prices that include the Price Adjusters using the audited central systems. Both Workaround W024 and Modification Proposal P8 attempt to achieve the same imbalance prices.

## 5 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel agreed with the Modification Group's view that retrospective implementation of the Modification Proposal would remove the need for Workaround W024 to operate for Settlement Days 5 April 2001 to 24 September 2001. This would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations carried out under Workaround W024<sup>1</sup>. In the Panel's view, these improvements would better facilitate achievement of the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P8 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 that are after the Implementation Date. The Authority has provided its indicative views in the Decision Letter for Modification Proposal P19 on the issue of retrospective changes to the BSC. In relation to Modification Proposal P19 the Authority took the view that BSC Parties would generally prefer the assurance of rules that are not changed retrospectively. However, Ofgem also recognised that there are particular circumstances that could give rise to the need for a retrospective Modification including: -

---

<sup>1</sup> The Initial Written Assessment for Modification Proposal P8 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Assessment Report can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

- A situation where the fault or error occasioning the loss was directly attributable to central arrangements;
- Combinations of circumstances that could not have been reasonably foreseen; or
- Where the possibility of a retrospective action had been flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

In any event the loss sustained would have to be material.

The Panel agreed with the Modification Group that the Modification Proposal P45 itself, together with the Assessment Procedure, had made the retrospective nature of the Modification Proposal clear to all participants. The Panel also noted that the retrospective element of the Modification Proposal had been considered during the consultation process carried out by the Modification Group and was accepted in the majority of consultation responses during the Assessment Procedure. The Panel agreed with the Modification Group's view that the operational loss sustained by continuing the use of Workaround W024 at a monthly cost of about £10k together with the resulting risk of inaccuracy and error in imbalance prices did constitute a material loss.

It was not clear what the implications would be if the Modification Proposal were to be rejected. As Modification Proposal P3 was not approved by the Authority, there is no reference to Workaround W024 within the BSC and its existence is entirely linked to the revised BSAD Methodology (dated 10 April 01 and applicable from Settlement Day 05 April 01). However, the BSAD Methodology does not recognise that data may change after the original II Settlement Run and cause unexpected changes in the resulting imbalance prices. The section concerned with data re-submission does not extend to include correcting the effects of such changes, and does not recognise that it may be used to calculate the imbalance prices for the final RF Settlement Run.

Should this modification be rejected a new version (retrospective) of the revised BSAD Methodology may be required to include any additional procedures related to the RF Settlement Runs, and the accepted level of error. This change to the BSAD Methodology would also need to recognise the additional steps already incorporated into Workaround W024 to handle changes in the underlying data.

## 6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

### Conformed Version

The following new paragraph 6.3.5 will be inserted in Section Q:

*"6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):*

- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;*
- (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA and to BSCCo for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and*

(c) *BSCCo shall arrange for such data to be published in accordance with Section V4.2.*

6.3.6 *For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."*

### **Clean Version**

The following new paragraph 6.3.5 will be inserted in Section Q:

"6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):

- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;
- (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA and to BSCCo for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and
- (d) BSCCo shall arrange for such data to be published in accordance with Section V4.2.

6.3.6 For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."

## **7 ASSESSMENT**

This section of the report summarises the assessment carried out by the Pricing Issues Modification Group during the Assessment Procedure. Full details are contained in the P45 Assessment Report, which may be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

The Pricing Issues Modification Group considered Modification Proposal P45 at meetings on 6 November 2001 and 6 December 2001. In particular the Modification Group considered whether the Modification Proposal would better facilitate the Applicable BSC Objectives.

The Modification Group felt that implementation of the Modification Proposal would remove the need for Workaround W024 to operate for Settlement Days 5 April 2001 to 24 September 2001. This would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations carried out

under Workaround W024<sup>2</sup>. In the Modification Group's view, these improvements would better facilitate the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements". The Modification Group also agreed that the Modification Proposal would also require modification of NGC's BSAD Methodology Statement.

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P8 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 that are after the Implementation Date. The Modification Group felt that Modification Proposal P45 itself, together with the Assessment Procedure, made the retrospective nature of the Modification Proposal clear to all participants and that the Modification Proposal addressed an issue that had been signalled under Modification Proposal P8, and was always intended to have been implemented. The retrospective element of the Modification Proposal was explicitly considered during the consultation process carried out by the Modification Group and was accepted in the majority of consultation responses. The Modification Group had also taken the view that the operational loss sustained by continuing the use of Workaround W024 at a monthly cost of about £10k together with the resulting risk of inaccuracy and error in imbalance prices constituted a material loss.

The Modification Group took the view that should this modification be rejected a new version (retrospective) of the revised BSAD Methodology may be required to include any additional procedures related to the Final Reconciliation Run, and the accepted level of error. This change to the BSAD Methodology would also need to recognise the additional steps already incorporated into Workaround W024 to handle changes in the underlying data.

## **8 SUMMARY OF REPRESENTATIONS**

[Insert summary of responses to consultation on Draft Modification Report. Insert copies at Annex 1.]

---

<sup>2</sup> The Assessment Report for Modification Proposal P8 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Assessment Report can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

## **ANNEX 1 – REPRESENTATIONS**

[Insert copies of representations on Draft Modification Report]